PROCEDURE NO.

803

Making an Initial Valuation of Property and Equipment

Most of the information needed to prepare an inventory listing of capital assets (description, name, identification number, acquisition cost, and so forth) is available by locating the asset and the purchase documents. However, if the asset was not purchased recently, information on the cost may not be available.

Generally accepted accounting principles for all business enterprises, including LEAs and other public agencies, has always required the use of "historical cost" to measure an entity's investment in property and equipment.

Historical cost simply means actual cost at the time of acquisition. Actual cost includes the invoice cost of the item, plus any applicable sales tax, freight, or installation charges. Such actual cost represents the value to be recovered over the useful life of the asset through depreciation. When items are disposed of in any manner, their cost is removed from the capital asset account. Any accumulated depreciation is also removed from the depreciation allowance account.

Valuation of existing inventory of property and equipment can be made on the basis of (1) actual cost of each item, if records are available to support such costs; or (2) appraised/ estimated cost, based on date of acquisition.

The following guidelines are to be used in determining the method of valuation for inventory purposes:

1. Actual cost

   The actual cost should include the invoice cost paid by the LEA plus tax, freight, or other form of transportation for delivery to the LEA, whether added to the invoice or paid separately to a carrier. To this cost the LEA should add any labor and other costs of installation. Labor and other costs of installation by the vendor will usually be included in the original invoice price or billed separately by the vendor.

2. Estimated cost

   a. Appraised acquisition cost—LEAs may find it desirable to employ an outside agency to set up an inventory and/or update it. Appraisal companies have the ability to compute the estimated cost based on the estimated date of acquisition of the particular items. Costs developed in this manner would be acceptable in either establishing a new inventory or adding to the inventory items that may have been missed in the establishment of the initial inventory. Use of an appraisal service also has the additional advantage of developing current market values for insurance purposes, either on a replacement-cost basis or a depreciated-replacement-cost basis, although current market values or replacement costs are never used for accounting purposes. Once the inventory listing is established, it is necessary to update it for current-year purchases and disposals of fixed assets.

b. Reasonable estimate of cost—If the original acquisition cost cannot be traced through the LEA's records, a reasonable estimate of original acquisition cost may be used. Methods of determining such reasonable estimates of cost are many and varied. It is important for auditing purposes that the methods employed be carefully documented. While it is not necessary to use the same method for each item, the methods should be designed to produce a consistent result. Care should be exercised in the establishment of each item's cost. Among the methods that may be employed are the following:

   (1) Compare the item to a similar one of more recent acquisition for which you have a price. Adjust that price through a formula that would eliminate the effect of inflation/deflation for the number of years the older item has been in your possession.
   (2) Research bid files for bids on similar items and apply any necessary inflation adjustments.
   (3) Seek assistance from vendors who manufacture or sell items similar to the items you are attempting to price.
   (4) Check with other LEAs that may have purchased similar items.

   Any other method which can be shown to reflect a reasonable estimate of the original acquisition cost of the item may also be used.

In accepting donated items, the LEA's governing board should approve the valuations based on their fair market values as of the dates of acceptance.